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SENSITIVE

COMMERCE PASS 4211/ITA/MAC/OEURA/DCALVERT

E.O. 12958: N/A
TAGS: ECON ETRD SP
SUBJECT: AMCHAM REPORTS GROWING CORPORATE PESSIMISM TOWARD SPAIN

1.(SBU) Summary: U.S. companies operating in Spain are becoming increasingly pessimistic about the economic outlook, according to a new report commissioned by the American Chamber of Commerce in Spain. In the report, expectations for job creation and investment have dropped notably since 2004. U.S. companies were most critical of bureaucracy and labor and trade union relations. The report may fuel GOS fears that foreign investment in Spain will continue to drop, although foreign investment in 2004 was about the same as it was in 2003. There are no forecasts yet for foreign investment levels in 2005. End Summary.

¶2. (U) A new report, "Barometer of North American Companies in Spain 2005," by Spain's ESADE business school on behalf of the American Chamber of Commerce in Spain, describes a negative shift in the outlook of U.S. companies in Spain. U.S. companies are the biggest investors in Spain with 532 registered firms and a turnover of 56.9 billion Euros annually.

Evaluation of the Spanish Economy

¶3. (U) Seventy-four percent of U.S. firms surveyed still consider the outlook for the Spanish economy to be good or very good. However, this figure is down from 90 percent in ¶2004. The percentage of firms pessimistic about the economic outlook in Spain jumped from zero percent in 2004 to 14 percent in 2005. At a sectoral level, the general outlook of the companies is similar to 2004, though more pessimism is emerging. Companies with a pessimistic view have increased from 4 percent in 2004 to 14 percent in 2005. The most frequently cited problems in the report in relation to the economic outlook were institutional and regulatory bureaucracy and problems with public policies.

Job Creation and the Labor Market

¶4. (U) The ability of firms to increase or maintain current levels of employment has also diminished from 2004 as 24 percent of surveyed firms will reduce their labor force in ¶2005. Only 31 percent plan to increase employment in the long term, a 12 percent drop from 2004. 60 percent were "pessimistic" about their ability to create new jobs in the short term. Labor market rigidity and inflexibility in work practices are a major factor in the reduction of employment plans. According to the President of the Chamber of Commerce in Spain, Jaime Malet, "the cost of laying somebody off, in a country with such high unemployment and lack of job security, does not make sense." Further, "the system is not able to adapt its manpower to the areas of the economy where it is needed."

¶5. (U) The study also analyzes compatibility of Spanish workers with the needs of the U.S. firms. Managers frequently cited their appreciation of the workers' ability to learn, their customer relationships, and their ability to problem-solve and be team players. In spite of this, the lack of foreign language skills, and in particular English, was cited as a major hurdle to overcome.

Investment Plans

¶6. (U) Despite the fact that the majority of the U.S. companies evaluated their overall position as highly satisfactory in 2004, many of them did not make significant investments. Only 49 percent of companies developed new investment projects in 2004. Further, only 27 percent plan to create new investment projects in 2005, whereas 22 percent plan to reduce their investments. On a sectoral level, finance, insurance, consulting, and marketing companies are optimistic about future investment. Automotive and other general services show the most pessimistic plans for the

future.

Economic Environment

¶7. (U) The study shows a drop in the level of satisfaction with the economic, institutional, and public regulation environment in which U.S. companies have operated in Spain between 2004 and 2005. Companies remain satisfied with the standard of living offered to foreign personnel, the facilities and quality of banking services, the degree of contract fulfillment, and the level of education of their Spanish collaborators. Declining satisfaction is demonstrable in the bureaucracy of the public administration, payment conditions offered and demanded between companies, union and labor relations, and labor laws and their application.

Political Jitters?

¶8. (U) Several media reports cite the possibility that the increased pessimism may be a result of the 2004 change in government. Although the study outlines a decline in the degree of satisfaction with the government and its civil service, it does not state whether this is in relation to the change in government. Concerns about bureaucracy were not broken down in the report by autonomous regions versus the national government. Malet stated that he believes the negative trends in the report are due to the political change which temporarily unsettled managers. He further stated that he is "convinced that this is just a phase."

¶9. (U) Note: It is important to mention that only 14 percent of the U.S. firms registered in Spain responded to the survey used in writing the "Barometer 2005" report. Further, the report does not list the names of the firms nor their geographic location with Spain. Consequently, it is difficult to verify that the report portrays an accurate picture of the situation in Spain as geographic distribution and company size are not clearly revealed in the report.

¶10. (SBU) Comment: This report on U.S. companies' pessimism may further play into fears that foreign investors may continue to withdraw from Spain. The past 11 years have been marked by a wave in foreign investment in everything from electronics and car manufacturing to chemicals and spare parts. However, recent media reports have commented on the new era of "deslocalizacion," in which foreign firms lay off workers, close plants, and move to newer EU member states with cheaper labor costs and greater financial incentives. In all, more than 40 multinationals have closed or sold factories in Spain since 2002, averaging one shutdown per month. As a response, the GOS announced in February a package of over 100 measures to improve Spain's competitiveness. Critics claim, however, that the plan is too vague and little has been done to decrease labor market rigidity and bureaucratic red tape within Spain, two major concerns cited in the Barometer 2005 report. Spaniards are right to be concerned about competitiveness issues. It is worth noting though that foreign investment in Spain reached its highest level in 2000 at roughly 38 billion Euros with major investments in telecoms and banking. The big drop in foreign investment occurred in 2003 when it went down to about 18 billion Euros from 32 billion Euros in 2002. In 2004, foreign investment was stable at almost 18 billion Euros. Clearly, there are one-off (privatization and deregulation), as well as competitiveness, factors at work in driving foreign investment. Moreover, the percentage share of American investment in Spain declined from over 30% of foreign investment in Spain in 2003 to about 10% in 2004. We do not know if this represents a trend, but this may have had something to do with the respondents' pessimism. End Comment.

MANZANARES